VIRGINIA TOURISM AUTHORITY

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2000

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Tourism Authority for the year ended June 30, 2000, found:

- the financial statements are presented fairly in all material respects;
- no matters involving the internal control and its operation that we consider material weaknesses; and,
- no instances of noncompliance with material laws and regulations that are required to be reported.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

November 11, 2000

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Virginia Tourism Authority Board Members
901 East Byrd Street
Richmond, Virginia 23218-0798

We have audited the accounts and records of the **Virginia Tourism Authority** as of and for the year ended June 30, 2000, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the general-purpose financial statements of the Virginia Tourism Authority for the year ended June 30, 2000. These general-purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Tourism Authority as of June 30, 2000, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virignia Tourism Authority as of and for the year ended June 30, 2000, we considered internal control over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Tourism Authority Board, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 2, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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FINANCIAL STATEMENTS

VIRGINIA TOURISM AUTHORITY
COMBINED BALANCE SHEET
As of June 30, 2000

	General Fund	Account Groups: General Fixed Assets	Account Groups: General Long-Term Debt	Total (Memorandum Only) June 30, 2000
Assets and Other Debits:				
Assets:				
Cash, cash equivalents, and investments (Note 2)	$ 577,816	$ -	$ -	$ 577,816
Petty cash	8,208	-	-	8,208
Other receivables (Note 3)	332,353	-	-	332,353
Prepaid expenses	3,499	-	-	3,499
Leasehold improvements, vehicles, furniture, and equipment (Note 6)	-	420,395	-	420,395
Other Debits:				
Amount to be provided for compensated absences	-	-	360,660	360,660
Amount to be provided for installment purchases	-	-	34,434	34,434
Amount to be provided for pension liability	-	-	42,551	42,551
Total assets and other debits	$ 921,876	$ 420,395	$ 437,645	$ 1,779,916
Liabilities, Equity, and Other Credits:				
Liabilities:				
Accounts payable	$ 197,924	$ -	$ -	$ 197,924
Accrued payroll	72,486	-	-	72,486
Deferred revenue (Note 1-F)	13,045	-	-	13,045
Compensated absences (Note 1-G)			360,660	360,660
Installment purchases payable (Note 8)	-	-	34,434	34,434
Pension liability (Note 9)	-	-	42,551	42,551
Total liabilities	283,455	-	437,645	721,100
Equity and Other Credits:				
Investment in fixed assets	-	420,395		420,395
Fund balances - unreserved	638,421	-	-	638,421
Total liabilities, equity, and other credits	$ 921,876	$ 420,395	$ 437,645	$ 1,779,916

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2000

	General Fund
Revenues:	
Revenue provided by the General Fund of the Commonwealth (Note 5)	$ 18,154,215
Participation fees	381,993
Welcome Center revenues	791,338
Interest revenue	128,985
Other revenue	32,571
Total revenues	19,489,102
Expenditures:	
Administration and finance	1,154,666
Marketing and promotion	7,227,040
Tourism development	6,894,450
Consumer and visitor services	1,881,787
Virginia film office	687,304
Pass-through payments	447,500
Total expenditures	18,292,747
Revenues over expenditures	1,196,355
Other financing sources (uses):	
Transfers from the Virginia Economic Development Partnership as of July 1, 1999 (Note 10)	(556,897)
Unrealized loss on foreign currency deposits	(1,037)
Total other financing sources (uses)	(557,934)
Revenues and other sources over expenditures and other uses	638,421
Fund balance, July 1, 1999	-
Fund balance, June 30, 2000	$ 638,421

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
For the Fiscal Year Ended June 30, 2000

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Revenue provided by the General Fund of the Commonwealth	$ 18,154,215	$ 18,154,215	$ -
Participation fees	221,478	383,193	161,715
Welcome Center revenues	730,000	692,979	(37,021)
Interest revenue	124,000	128,985	4,985
Other revenue	100,800	32,571	(68,229)
Total revenues	19,330,493	19,391,943	61,450
Expenditures:			
Administration and finance	1,461,042	1,192,121	268,921
Marketing and promotion	7,398,911	7,572,622	(173,711)
Tourism development	7,351,289	7,228,412	122,877
Consumer and visitor services	1,973,343	1,879,366	93,977
Virginia film office	698,408	700,488	(2,080)
Pass-through payments	597,500	447,500	150,000
Total expenditures	19,480,493	19,020,509	459,984
Revenues over expenditures	(150,000)	371,434	521,434
Other financing sources (uses):			
Transfers from the Virginia Economic Development	215,627	215,627	-
Partnership as of July 1, 1999 (Note 10)	-		
Unrealized loss on foreign currency deposits	-	(1,037)	(1,037)
Total other financing sources (uses)	215,627	214,590	(1,037)
Revenues and other sources over expenditures and other uses	65,627	586,024	520,397
Fund balance, July 1, 1999	-	-	-
Fund balance, June 30, 2000	$ 65,627	$ 586,024	$ 520,397

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA TOURISM AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Tourism Authority (VTA) was established on July 1, 1999, by an act of the General Assembly and operates as an authority in accordance with the provisions of Chapter 32.3 of Title 2.1 of the Code of Virginia (Sections 2.1-548.53 through 2.1-548.68). Prior to July 1, 1999, activities of VTA's predecessor, Virginia Tourism Corporation, were accounted for as an operating division of the Virginia Economic Development Partnership (VEDP). Accordingly, on July 1, 1999, assets, net of liabilities, from the accounts of VEDP were transferred into the accounts of the newly established VTA**.** VTA is authorized to continue doing business as the "Virginia Tourism Corporation" in accordance with Section 2.1-548.56. VTA's major activities are to encourage, stimulate, and promote the tourism and film production industries of the Commonwealth.

VTA is a component unit of the Commonwealth of Virginia. A separate report is prepared by the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The VTA is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, all funds and account groups of the VTA are included in the financial statements of the Commonwealth as a part of the reporting entity.

B. Basis of Accounting

The accompanying financial statements have been prepared in accordance with general accepted accounting principles. All governmental funds are reported using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized when the related fund liability is incurred through the receipt of goods or services, although payment may occur at a later date. The cash basis of accounting is used during the year; reports are prepared on the modified accrual basis at the fiscal year end.

C. Fund Accounting

The accounts of VTA were developed to account for specified financial activities. Resources were allocated to and accounted for in individual funds based upon financing sources. Each fund is an independent fiscal and accounting entity with a set of self-balancing accounts. All of VTA's transactions for the fiscal period ended June 30, 2000, were related to resources received and uses for those services traditionally provided by a state government and were recorded in the General Fund.

D. Account Groups

Account groups are used to establish accounting control over general fixed assets and long-term liabilities. Fixed assets do not provide current financial resources available for appropriation or expenditure, nor are they assets of a particular fund. Long-term liabilities do not require an appropriation or expenditure during the current accounting period. For these reasons, fixed assets and long-term liabilities are accounted for in self-balancing account groups rather then governmental funds. Fixed assets are recorded in the General Fixed Assets Account Group. Long-term liabilities are recorded in the General Long-Term Debt Account Group.

E. General Fixed Assets

Fixed assets of governmental funds are recorded as expenditures at the time of purchase and are valued at historical cost or estimated historical cost. Donated fixed assets are valued at estimated market value at the date of donation. General fixed assets are comprised of leasehold improvements, vehicles, furniture, and equipment.

F. Deferred Revenue

Deferred revenue is comprised primarily of Welcome Center display revenue that was received at June 30, 2000, but was not yet earned.

G. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by VTA employees, but not taken at June 30, 2000. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of the following: Sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest for payment and Social Security and Medicare taxes to be paid by VTA on all accrued compensated absences.

H. Budgets and Cash Basis Accounting

VTA's budget was established primarily by the Appropriation Act as amended by Chapter 1072 and enacted by the General Assembly of Virginia for the biennium ended June 30, 2000. No payments were made to VTA out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into VTA bank accounts in accordance with the provisions of Chapter 32.3 of Title 2.1 of the Code of Virginia and expended for purposes as stated in those provisions.

The budget is prepared principally on the cash basis. Since the cash basis differs from generally accepted accounting principles (GAAP), a reconciliation of actual data reported on the cash basis to actual data reported on the GAAP (modified accrual) basis is presented in Note 4.

Revenues provided by the General Fund of Commonwealth of Virginia in the financial statements are amounts originally appropriated to VTA as adjusted by subsequent appropriations authorized by the General Assembly.

I. <u>Total Columns</u>

Total columns on the financial statements are captioned “Total - Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund elimination has not been made in the aggregation of this data.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents represent cash in the Local Government Investment Pool (LGIP) at the Treasury of Virginia, deposits, and overnight repurchase agreements. The LGIP funds are held in pooled accounts and accordingly, are not categorized as to credit risk as defined by Statement 3 of the Governmental Accounting Standards Board. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and also not categorized as to credit risk.

Repurchase agreements are categorized below to give an indication of the level of credit risk assumed by the VTA. Credit risk is the risk that the VTA may not be able to obtain possession of its investment instruments. Risk category 1 includes investments which are insured or registered or for which the securities are held by the VTA or its safekeeping agent in the VTA’s name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker’s or dealer’s trust department or safekeeping agent in the VTA’s name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the VTA’s name. There are no accounts or investments in categories 1 or 2.

Cash and Cash Equivalents	Category 3	Non-Categorized	Fair Value
Repurchase agreements	$ 410,308	$ -	$ 410,308
Cash on deposit	-	(357,444)	(357,444)
Cash with Local Government Investment Pool at Treasury	-	524,952	524,952
Total cash, cash equivalents, and investments	$ 410,308	$ 167,508	$ 577,816

3. OTHER RECEIVABLES

Other receivables include $331,700 due from the City of Norfolk for unused portions of a matching grants program funded by VTA. Under the terms of the grant agreements, recipients are required to return to VTA any funds not used in the same fiscal period in which the award was disbursed.

4. RECONCILIATION OF CASH BASIS FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis presents comparisons of the adopted budget with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	General Fund
Fund balance, cash basis, June 30, 2000	$ 586,024
Add:	
Prepaid expenses	3,499
Other receivables	332,353
Deduct:	
Deferred revenues	(13,045)
Accrued expenses	(270,410)
Fund balance, GAAP basis, June 30, 2000	$ 638,421

5. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation	$ 18,096,929
Supplemental appropriation actions:	
Add: Net personal service cost and telecommunications increases	57,286
Revenue provided by the General Fund of the Commonwealth	$ 18,154,215

6. CHANGES IN GENERAL FIXED ASSETS

The following schedule presents the changes in the General Fixed Assets Account Group for the fiscal year ended June 30, 2000. $416,018 of the acquired total represents assets transferred to VTA from the Virginia Economic Development Partnership as of July 1, 1999.

	Balance July 1, 1999	Acquired	Disposed	Balance June 30, 2000
Leasehold improvements, vehicles, furniture, and equipment	$ -	$ 426,175	$ 5,780	$ 420,395

7. OPERATING LEASE COMMITMENTS

VTA is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements amounted to $131,367 for the year. A summary of minimum future obligations under these lease agreements as of June 30, 2000, follows:

Year Ending June, 30	Operating Lease Obligations
2001	$ 155,476
2002	147,180
2003	145,804
2004	129,812
2005	30,610
Total future minimum rental payments	$ 608,882

8. INSTALLMENT PURCHASES OBLIGATIONS

VTA has entered an installment purchase contract to finance the acquisition of three motor vehicles and equipment. A balloon payment of $29,466 for the motor vehicles is due and payable in July 2000. The contract for the equipment obligation is three years and ends in June 2001. The interest rate is 8.5 percent. Principal and interest payments for fiscal years subsequent to June 30, 2000 is as follows:

Year	Principal	Interest	Total
2001	$34,434	$221	$34,655

9. PENSION PLAN AND OTHER RETIREMENT BENEFITS

VTA is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2000, VTA's net pension obligation was $42,551.

Plan Description

All full-time and part-time salaried employees of VTA participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute five percent of their annual salary to the VRS. The employer may assume this five percent member contribution. VTA does pay the member contribution, which amounted to $143,951 (Five percent of total creditable compensation of $2,879,029.) In addition, VTA is required to contribute the remaining amounts necessary to funds its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. VTA contribution rate for the fiscal year ended June 30, 2000, was 6.86 percent on the same covered payroll of $2,879,029. The amount contributed for that period was $197,501.

10. TRANSFERS FROM THE VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP (VEDP)

On July 1, 1999, VEDP transferred the following balances to VTA's General Fund

Cash and employee advances	$ 215,627
Deferred revenue	(110,205)
Compensated absences – current	(10,540)
Accrued expenses	(651,779)
Transfer from the VEDP	$ (556,897)

11. SURETY BOND

The Virginia Tourism Authority is insured from loss from employee actions by an insurance policy issued by the Chubb Group, the Great Northern Insurance Company. Policy coverage is $50,000 per occurrence with a $500 deductible for each loss.

VIRGINIA TOURISM AUTHORITY
Richmond, Virginia

Barry E. DuVal, Ex-Officio

Ronald L. Tillett, Ex-Officio

Gayle Morgan Vail, Executive Director

Roy Knox, Director of Finance and Administration